

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Date: August 29, 2011

"James G. Long" (signed)

James G. Long
President, CEO and acting CFO

STATEMENTS OF FINANCIAL POSITION

	Note	June 30, 2011	December 31, 2010
ASSETS			
Current assets			
Cash		\$ 137,529	\$ 48,136
Accounts receivable		425,613	393,556
Deposits and prepaid expenses		16,503	11,747
Total current assets		579,645	453,439
Non-current assets			
Reclamation deposits		84,449	47,271
Exploration & evaluation properties	7	65,000	65,000
Property, plant and equipment	8	3,417,636	3,462,538
Total non-current assets		3,567,085	3,574,809
TOTAL ASSETS		\$ 4,146,730	\$ 4,028,248
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,967,543	\$ 1,978,838
Due to related parties		263,245	200,775
Loan - related parties	10	2,560,000	2,560,000
Total current liabilities		4,790,788	4,739,613
Non current liabilities			
Decommissioning liabilities	11	771,140	750,460
Total non-current liabilities		771,140	750,460
TOTAL LIABILITIES		5,561,928	5,490,073
SHAREHOLDERS' DEFICIENCY			
Common shares	12	5,596,906	5,114,975
Warrants	12	92,812	212,393
Contributed surplus	12	754,466	716,716
Accumulated losses		(7,859,382)	(7,505,909)
TOTAL DEFICIENCY		(1,415,198)	(1,461,825)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,146,730	\$ 4,028,248

The notes are an integral part of these financial statements

Approved on behalf of the board of directors

"James G. Long"

James G. Long

"Douglas F. Robinson"

Douglas F. Robinson

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Note	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
REVENUES					
Petroleum and natural gas sales		\$ 131,746	\$ 95,195	\$ 248,436	\$ 236,040
Royalties		(18,631)	(18,870)	(32,245)	(28,328)
Other income		10,838	6,152	37,194	12,170
Gain on debt settlements		-	401,119	41,815	401,119
		123,953	483,596	295,200	621,001
EXPENSES					
Production		72,981	85,976	185,527	187,312
General and administrative		75,109	271,859	194,153	404,204
Depletion, depreciation and amortization		51,508	164,717	102,135	255,213
		199,598	522,552	481,815	846,729
Results from operating activities		(75,645)	(38,956)	(186,615)	(225,728)
Finance expenses (recoveries)	6	69,022	(8,230)	166,858	149,748
Net loss and comprehensive loss for the period		(144,667)	(30,726)	(353,473)	(375,476)
Net loss per share					
Basic and diluted		\$ -	\$ -	\$ (0.01)	\$ (0.02)

The notes are an integral part of these financial statements

CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIENCY

	Note	Common shares	Warrants	Contributed surplus	Accumulated losses	Total
Balance at January 1, 2010	12	\$ 4,694,403	\$ 185,093	\$ 583,699	\$ (6,607,100)	(1,143,905)
Issuance of common shares		187,500	112,500	-	-	300,000
Exercise of warrants		82,388	(17,183)	-	-	65,205
Net loss for the period		-	-	-	(375,476)	(375,476)
Balance at June 30, 2010		4,964,291	280,410	583,699	(6,982,576)	(1,154,176)
Balance at January 1, 2011		\$ 5,114,975	\$ 212,393	\$ 716,716	\$ (7,505,909)	(1,461,825)
Exercise of warrants		453,867	(71,367)	-	-	382,500
Exercise of options		28,064		(10,464)		17,600
Expiry of warrants		-	(48,214)	48,214		-
Net loss for the period		-	-	-	(353,473)	(353,473)
Balance at June 30, 2011		5,596,906	92,812	754,466	(7,859,382)	(1,415,198)

The notes are an integral part of these financial statements

STATEMENTS OF CASH FLOW

	Note	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
OPERATING ACTIVITIES					
Net loss for the period		\$ (144,667)	\$ (30,726)	\$ (353,473)	\$ (375,476)
Adjustments for:					
Depletion, depreciation and amortization		51,508	164,717	102,135	255,213
Stock based compensation	12	-	80,000	-	80,000
Gain on debt settlements		-	(401,119)	(41,815)	(401,119)
Finance expenses (recoveries)		69,022	(8,230)	166,858	149,748
Interest paid		(42,433)	(25,912)	(67,134)	(71,518)
Change in non-cash working capital		95,193	59,183	83,241	16,742
		28,623	(162,087)	(110,188)	(346,410)
FINANCING ACTIVITIES					
Issue of common shares		5,000	65,205	400,100	365,205
Due to related party		-	60,010	-	60,010
Change in non-cash working capital		-	2,000	-	-
		5,000	127,215	400,100	425,215
INVESTING ACTIVITIES					
Deposits		(210)	(123)	(37,178)	(74,048)
Additions to property and equipment		(26,535)	(1,210)	(46,113)	(4,228)
Dispositions of oil and gas properties		-	12,060	-	12,060
Change in non-cash working capital		(287,445)	(32,128)	(117,228)	(6,434)
		(314,190)	(21,401)	(200,519)	(72,650)
Change in cash		(280,568)	(56,273)	89,393	6,155
Cash, beginning of period		418,097	91,643	48,136	29,215
Cash, end of period		\$ 137,529	\$ 35,370	\$ 137,529	\$ 35,370

The notes are an integral part of these financial statements

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

1. REPORTING ENTITY

Desmarais Energy Corporation (the “Company” or “Desmarais”) was incorporated under the Business Corporations Act (Alberta) on June 24, 1994. The Company is listed on the TSX Venture Exchange, under the symbol “DES”. The Company is engaged in the exploration, development, production and acquisition of oil and gas reserves in Western Canada.

The interim financial statements of the Company are as at and for the three and six months ended June 30, 2011. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities.

2. BASIS OF PRESENTATION

(a) Going concern uncertainty

The Company’s interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced consecutive losses and has accumulated losses of \$7,859,392 as at June 30, 2011.

As such, there is significant uncertainty regarding the Company’s ability to continue as a going concern, which is dependent upon achieving on-going cash flow from operating activities and receiving additional support from its creditors and investors.

The Company is experiencing negative cash flow from operating activities. There is no certainty as to when the Company will have positive cash flow. The Company will be solely dependent upon outside sources and third party financings to obtain the necessary capital to implement a plan to explore and develop its properties or acquire further properties or restructure the Company and continue as a going concern. The Company does not have access to short term bank financing. If the Company is unable to secure sufficient financing, delays or postponement of future development or production of the Company’s properties may result.

There can be no assurance that the additional capital required or other types of financing will be available if needed or even if available, the terms of such financing will be acceptable to the Company. Failure to obtain suitable financing would, in all likelihood, lead to the liquidation of the Company’s assets.

These financial statements do not contain any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

(b) Statement of compliance:

These interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, “First-time Adoption of International Financial Reporting Standards” has been applied. The interim financial statements do not include all the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 16. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP (“previous GAAP”) to those reported for those periods and at the date of transition to IFRS.

These interim financial statements were authorized for issue by the Board of Directors on August 29, 2011.

(c) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

2. BASIS OF PRESENTATION (CONTINUED)

(e) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis. Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the interim financial statements include:

- Impairment testing – estimates of reserves, future commodity prices, future costs, production profiles, discount rates, market value of land.
- Depletion and depreciation - oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.
- Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- Stock-based compensation – forfeiture rates and volatility.
- Derivatives – expected future oil and natural gas prices and expected volatility in these prices; expected interest rates; expected future foreign exchange rates.
- Deferred tax – estimates of reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.
- Provisions and contingencies – estimates relating to onerous contracts, including discount rates associated with long term contracts.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements as at and for the three and six months ended June 30, 2011 have been prepared following the same accounting policies and methods of computation as the interim consolidation financial statements as at March 31, 2011.

(a) Recent accounting pronouncements:

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 11 “Joint Arrangements” replaces IAS 31, “Interests in Joint Ventures”. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A “joint operation” continues to be accounted for using proportionate consolidation, where a “joint venture” must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A “joint operation” is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a “joint venture”, the joint ventures’ have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 “Disclosure of Interests in Other Entities” is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 “Fair Value Measurement” is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 “Investments in Associates and Joint Ventures” has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurements" ("IAS39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published.

The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with different transitional arrangements depending on the date of initial application.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards on our financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and exploration and evaluation assets:

The fair value of property, plant and equipment recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions, being 10% for the three and six months ended June 30, 2011.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(b) Cash and cash equivalents, trade and other receivables, and trade and other payables:

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) Share options:

The fair value of employee share options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

5. FINANCIAL RISK MANAGEMENT

(a) Overview:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

Trade and other receivables

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is primarily related to the Company's receivables from joint venture partners and petroleum and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable is with partners in the energy industry and is subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its partners.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to a single petroleum and natural gas marketer and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreements between parties.

The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however in certain circumstances, it may cash call a partner in advance of the work. As well, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection and, therefore the carrying amount of accounts receivable generally represents the maximum credit exposure.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see note 2). The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued):

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. To facilitate the capital expenditure program, the Company relies on working capital and cash flows from operations (see note 2).

(d) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company utilizes commodity price contracts to manage market risks relevant to commodity prices. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Currency risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of the \$CDN as compared to the \$US will reduce the prices received by the Company for its petroleum and natural gas sales.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has only fixed rate loans or borrowings at June 30, 2011 and, accordingly, has minimal exposure to interest rate risk.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand

It is the Company's policy to economically hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

As at June 30, 2011 and December 31, 2010, the Company did not have any outstanding commodity contracts.

(e) Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending to manage current and projected debt levels.

The Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company has not paid or declared any dividends since the date of incorporation.

Desmarais Energy Corporation

Notes to the Financial Statements (Unaudited) For the periods ended June 30, 2011

6. FINANCE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest – loan – related parties	63,742	60,833	126,948	120,997
Interest – other	350	(78,993)	30,350	521
Accretion of decommissioning liabilities	4,930	9,930	9,560	28,230
Finance expenses (recoveries)	69,022	(8,230)	166,858	149,748

7. EXPLORATION AND EVALUATION ASSETS

	Exploration and Evaluation assets \$
Cost:	
At January 1, 2010	127,072
Additions	5,996
Impairments	(68,068)
Balance, December 31, 2010	65,000
Balance, June 30, 2011	65,000

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. As at June 30, 2011, \$65,000 (December 31, 2010 - \$65,000) remains in exploration and evaluation assets in respect of the undeveloped lands at Medicine Hat.

(a) Amortization and impairment charge:

The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized as additional depletion and depreciation expense in the statement of loss and comprehensive loss. The impairment of other intangible assets and goodwill, and any eventual reversal thereof (excluding goodwill), is recognized as amortization expense in the statement of loss and comprehensive loss.

(b) Recoverability of exploration and evaluation assets:

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, using CGU's. The CGU includes both the E&E CGU and CGU's related to oil and natural gas interests for that area, but not larger than a segment.

8. PROPERTY, PLANT AND EQUIPMENT

Amortization and impairment charge:

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion, depreciation and amortization in the statement of loss and comprehensive loss.

The calculation of depletion expense for the three and six months ended June 30, 2011 included estimated future development costs of \$467,000 (December 31, 2010 - \$467,000) associated with the development of the Company's non-impaired proved plus probable reserves.

In the periods ended June 30, 2011 and December 31, 2010, the Company did not capitalize any general and administrative expenses or share-based compensation expenses.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Property, plant and equipment \$
Cost:	
January 1, 2010	3,493,800
Additions	284,418
Divestitures	(62,060)
Change in decommissioning liabilities	30,117
December 31, 2010	3,746,275
Additions	46,113
Change in decommissioning liabilities	11,120
June 30, 2011	3,803,508
Accumulated depletion, depreciation and impairment losses:	
January 1, 2010	-
Depletion and depreciation expense	(125,007)
Impairment losses	(158,730)
December 31, 2010	(283,737)
Depletion and depreciation expense	(102,135)
June 30, 2011	(385,872)
Carrying amount:	
January 1, 2010	\$ 3,493,800
December 31, 2010	\$ 3,462,538
June 30, 2011	\$ 3,417,636

9. IMPAIRMENTS LOSSES

During the year ended December 31, 2010, the Company recorded an impairment loss of \$158,730 on its development and production oil and gas properties due to declining natural gas prices.

The Company also evaluated its E&E Medicine Hat CGU for impairment at December 31, 2010. As a result, the Company recorded an impairment loss of \$68,080 on its E&E assets as due to a land license expiry on this property.

10. DUE TO RELATED PARTY

This facility is collateralized by a \$10,000,000 Floating Charge Demand Debenture over the Company's assets. There are no fixed terms for review or covenants on this facility.

11. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be \$771,140 as at June 30, 2011 (December 31, 2010: \$750,460) based on an undiscounted total future liability of \$877,992 (December 31, 2010 - \$865,350). These payments are expected to be made over the next 15 years. The discount factor, being the risk-adjusted rate related to the liability, is 3.75% (December 31, 2010: 4.1 %).

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

11. DECOMMISSIONING LIABILITIES (CONTINUED)

	\$
Decommissioning liabilities	
Balance, January 1, 2010	621,550
Adjustments to assumptions	(21,700)
Liabilities incurred	(18,750)
Accretion expense	39,140
Acquisition of abandonment liability	130,220
Balance, December 31, 2010	750,460
Adjustments to assumptions	11,120
Accretion expense	9,560
Balance, June 30, 2011	771,140

12. CAPITAL STOCK

- (a) Authorized:
 Unlimited common shares without par value
 Unlimited preferred shares without par value
- (b) Common shares issued and outstanding:

	Number of Common Shares	\$
Balance, January 1, 2010	17,490,900	4,694,403
Private placement – common shares (i)	6,000,000	300,000
Fair value of warrants issued (i)	-	(112,500)
Shares issued on settlement of debt (ii)	371,235	55,684
Ascribed value of warrants exercised	1,234,700	177,388
Balance, December 31, 2010	25,096,835	5,114,975
Ascribed value of warrants exercised	1,875,000	453,867
Ascribed value of options exercised	110,000	28,064
Balance, June 30, 2011	27,081,835	5,596,906

- (i) The Company issued 6,000,000 units of the Company at a price of \$0.05 per unit ("Unit") for total gross proceeds of \$300,000. Each Unit will be comprised of one common share and one share purchase warrant, with each share purchase warrant entitling the holder thereof to acquire one Desmarais common share at a price of \$0.10 at any time prior to February 18, 2012. The fair value of the warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility 154%; risk-free interest rate of 3.1%; and an expected life of 24 months.
- (ii) On July 15, 2010, 371,235 common shares were issued as partial consideration for payment of outstanding accounts payable balances. These shares had a deemed value of \$0.15 per common share and were subject to a four month hold period from the date of issuance.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

12. CAPITAL STOCK (CONTINUED)

(c) Warrants issued and outstanding:

	Number of warrants	\$
Balance, January 1, 2010	4,450,000	185,093
Granted, private placements	6,000,000	112,500
Exercised	(1,234,700)	(32,183)
Expired	(1,215,300)	(53,017)
Balance, December 31, 2010	8,000,000	212,393
Exercised	(1,875,000)	(71,367)
Expired	(1,175,000)	(48,214)
Balance, June 30, 2011	4,950,000	92,812

A total of 4,950,000 warrants are exercisable on or before February 18, 2012 at an exercise price of \$0.10 per share.

(d) Contributed surplus:

	\$
Balance, January 1, 2010	583,699
Stock-based compensation expense	80,000
Expired warrants	53,017
Balance, December 31, 2010	716,716
Stock-based compensation – option exercises	(10,464)
Expired warrants	48,214
Balance, June 30, 2011	754,466

(e) Stock option plan:

The Company grants stock options to employees, officers, directors and consultants of the Company pursuant to an incentive plan. Under this plan, the exercise price of options granted cannot be less than the closing market price for the Company's common shares on the date of grant. Options vest immediately and expire three years from the date of grant.

The following table summarizes stock option transactions:

	Number of options	Weighted average exercise price (\$)
Balance, January 1, 2010	1,625,500	0.16
Granted	800,000	0.125
Forfeited	(100,000)	0.16
Balance, December 31, 2010	2,325,500	0.15
Exercised	(110,000)	0.16
Balance, June 30, 2011	2,215,500	0.147

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

12. CAPITAL STOCK (CONTINUED)

- (e) Stock option plan (continued):

The following table reflects the stock options outstanding as at June 30, 2011:

Exercise Price (\$)	Options Outstanding	Remaining Life (Years)	Options Exercisable
0.160	885,500	0.1	885,500
0.160	530,000	1.0	530,000
0.125	800,000	1.9	800,000
0.147	2,215,500	1.0	2,215,500

- (f) Loss per share:

The number of shares used to calculate the diluted net loss per share for the three and six month periods ended June 30, 2011 included the weighted average number of Desmarais common shares outstanding of 27,070,297 and 26,700,316 for the year plus nil shares related to the dilutive effect of the conversion of stock options and warrants (2010 – 23,562,554 and 21,902,615 for the three month and six month periods plus nil shares) as the stock options and warrants would be anti-dilutive.

13. COMMITMENTS AND CONTINGENCIES

- (a) Claims and Litigation

The Company is involved in various claims and potential litigation arising during the normal course of business. The outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour. If the outcome is unfavourable, it could have a materially adverse impact on the Company's financial position and/or results of operations.

- (b) Office Lease

Desmarais has a sublease for office premises with a term to September 30, 2011. The Company is committed to pay \$10,500 in 2011 over the remaining term of this lease.

- (c) Employment Contract

Desmarais has an employment contract with the President and Chief Executive Officer that provides for payment of a lump sum payment of 2 years salary, currently \$150,000 per annum, and 20% in lieu of benefits along with any outstanding holiday pay in the event of a change in control or dismissal without cause.

The Company has guarantees and other commitments in the normal course of business which would not have a material adverse effect on the Company's liquidity, financial condition or results of operations.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances are comprised of the following as at June 30:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Accounts receivable	138,037	8,663	(32,057)	(18,953)
Deposits and prepaid expenses	(25,588)	(30,214)	(29,642)	6,313
Accounts payable and accrued liabilities	(304,701)	50,606	27,713	22,948
	(192,252)	29,055	(33,986)	10,308
Attributable to operating activities	95,194	59,183	83,242	16,742
Attributable to financing activities	-	2,000	-	-
Attributable to investing activities	(287,445)	(32,128)	(117,228)	(6,434)

15. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, the Company has undertaken transactions with entities which are considered related parties. Transactions in the normal course of operations are measured at the exchange amount equaling the consideration established and agreed to by the related parties.

The Corporate Secretary is a Partner in a legal firm. During the three months ending June 30, 2011, legal fees totalling \$2,500 (2010 - \$13,005) with this firm were recorded. At June 30, 2011, a balance of \$32,903 remains outstanding (December 31, 2010 - \$38,825).

A director has ownership in private companies that are sublease tenants of Desmarais. During the three months ending June 30, 2011, Desmarais received office space and related service fees of \$9,000 (2010 - \$9,000). At both June 30, 2011 and December 31, 2010 \$nil was due to Desmarais from these companies.

A director is the President of a company that advanced \$2,560,000 under a demand facility to Desmarais. At June 30, 2011, interest totaling \$126,948 (2010 - \$120,997) was recorded by Desmarais to this company. At June 30, 2011, \$137,499 (December 31, 2010 - \$58,298) relating to interest was due and payable to this company from Desmarais.

The President and Chief Executive Officer is an employee of the Company with an employment contract that provides for an annual salary of \$150,000 payable in semi-monthly instalments. By mutual agreement, he has agreed to defer a portion of these payments. As a result, the Company is in arrears a total of \$78,250 as at June 30, 2011 (December 31, 2010 - \$71,250).

The President and Chief Executive Officer has partial ownership in a company that exchanged assets with Desmarais in January 2010 and is an ongoing joint venture partner in the Barrhead area. At June 30, 2011, a total of \$6,540 is due to this company (December 31, 2010 - \$5,895).

Desmarais has an arrangement to pay gross overriding royalties to a company controlled by a significant shareholder on properties developed as a direct result of their fund raising initiatives. For the six months ended June 30, 2011, the total of these royalties was \$2,761 (2010 - \$2,335) of which a balance of \$7,574 remained outstanding at June 30, 2011 (December 31, 2010 - \$5,841).

In 2010, Desmarais entered into joint venture agreements with companies controlled by a director. For the three months ended June 30, 2011, net amounts due from losses arising from these ventures totaled \$5,015, which remains outstanding at June 30, 2011. All amounts relating to capital activities were invoiced and paid in full as at June 30, 2011.

All related party transactions are in the normal course of business and have been measured at the agreed to exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which are similar to those negotiated with third parties.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

- Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were classified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP and the remaining full cost pool was allocated to the development assets and components pro rata using reserve values.
- Decommissioning liabilities exemption that allows any changes in decommissioning liabilities on transition to IFRS to be adjusted through opening deficit.
- Share-based compensation exemption that allows a company to only have to evaluate share-based compensation awards that were unvested as of the date of transition and that were issued subsequent to November 7, 2002.
- Business combinations exemption that allows a company to not have to restate any business combinations that occurred prior to the date of transition.

The accounting policies in note 3 (refer to the interim financial statements as at and for the three months ended March 31, 2011 for details) have been applied in preparing the interim financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010, the financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS statement of financial position at January 1, 2010, the Company's date of transition to IFRS. In preparing its opening IFRS statement of financial position, comparative information for the three and six months ended June 30, 2010 and financial statements for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes accompanying the tables.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(a) Reconciliation of statement of financial position from previous GAAP to IFRS:

At June 30, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 35,370	\$ -	\$ 35,370
Accounts receivable		278,383	-	278,383
Deposits and prepaids		43,752	-	43,752
Total current assets		357,505	-	357,505
Non-current assets				
Reclamation deposits		89,508	-	89,508
Exploration and evaluation	(i)	-	127,968	127,968
Property, plant and equipment	(ii)	3,781,022	(438,877)	3,342,145
Total non-current assets		3,870,530	(310,909)	3,559,621
TOTAL ASSETS		\$ 4,228,035	\$ (310,909)	\$ 3,917,126
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,534,166	\$ -	\$ 1,534,166
Due to related parties		143,144	-	143,144
Loan – related parties		2,500,010	-	2,500,010
Total current liabilities		4,177,320	-	4,177,320
Non-current liabilities				
Decommissioning liabilities	(iii)	699,427	58,873	758,300
Total non-current liabilities		699,427	58,873	758,300
TOTAL LIABILITIES		4,876,747	58,873	4,935,620
SHAREHOLDERS' DEFICIENCY				
Common shares		5,019,975	-	5,019,975
Warrants		227,393	-	227,393
Contributed surplus		716,716	-	716,716
Accumulated losses	(vii)	(6,612,796)	(369,782)	(6,982,578)
TOTAL DEFICIENCY		(648,712)	(369,782)	(1,018,494)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,228,035	\$ (310,909)	\$ 3,917,126

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(b) Reconciliation of statement of operations and comprehensive loss from previous GAAP to IFRS:

For the three months ended June 30, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Petroleum and natural gas revenue		\$ 95,195	\$ -	\$ 95,195
Royalties		(18,870)	-	(18,870)
Other income		6,152	-	6,152
Gain – debt settlements		401,119	-	401,119
		483,596	-	483,596
EXPENSES				
Production		81,814	4,162	85,976
General and administrative	(iv)	271,859	-	271,859
Depletion, depreciation and amortization	(v)	73,976	90,741	164,717
		427,649	94,903	522,552
Results from operating activities		55,947	(94,903)	(38,956)
Finance expenses (recoveries)	(iii), (vi)	(8,936)	(706)	(8,230)
Net income (loss) and comprehensive income (loss) for the period		\$ 64,883	\$ (95,609)	\$ (30,726)
Net income (loss) per share - Basic & diluted		\$ -	\$ -	\$ -

ii) For the six months ended June 30, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Petroleum and natural gas revenue		\$ 236,040	\$ -	\$ 236,040
Royalties		(28,328)	-	(28,328)
Other income		12,170	-	12,170
Gain – debt settlements		401,119	-	401,119
		621,001	-	621,001
EXPENSES				
Production		176,659	10,653	187,312
General and administrative	(iv)	404,204	-	404,204
Depletion, depreciation and amortization	(v)	197,037	58,176	255,213
		777,900	68,829	846,729
Results from operating activities		(156,899)	(68,829)	(225,728)
Finance expenses	(iii), (vi)	121,518	28,230	149,748
Net loss and comprehensive loss for the period		\$ (278,417)	\$ (97,059)	\$ (375,476)
Net loss per share				
Basic & diluted		\$ (0.01)	\$ (0.01)	\$ (0.02)

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(c) Statements of Cash Flows

As the transition from former previous GAAP had no material impact on the cash flows generated by the Company, no comparative tables have been prepared.

(d) Impact of transition to IFRS on 2010 results:

- (i) Exploration and Evaluation assets (“E&E”) – As required under IFRS 6, upon transition to IFRS, Desmarais reclassified \$127,072 from Property, Plant and Equipment (“PP&E”) to E&E, which primarily consisted of undeveloped exploration lands. The Company reclassified \$65,000 at December 31, 2010 (June 30, 2010 - \$127,968).

On transition to IFRS, the Company did not record an impairment loss on E&E assets. For the year ended December 31, 2010, the Company recorded impairment losses on E&E assets of \$68,068 (three and six months ended June 30, 2010 - \$nil) due to the expiry of an exploration license due to non-development.

The following table summarizes the changes to E&E assets resulting from the transition to IFRS:

E&E assets	January 1, 2010 \$	June 30, 2010 \$	December 31, 2010 \$
Transferred from PP&E assets	127,072	127,968	133,068
Impairment losses	-	-	(68,068)
E&E assets as reported under IFRS	127,072	127,968	65,000

- (ii) Property, Plant and Equipment (“PP&E”) – The Company’s PP&E assets were allocated to CGU’s unlike under previous GAAP where all oil and natural gas assets are accumulated into one cost centre. The deemed cost of the Company’s oil and natural gas assets were allocated to CGU’s based on total proved plus probable reserve values as at January 1, 2010, in accordance with IFRS 1.

Under IFRS, impairment tests for PP&E are performed at a CGU level as opposed to the entire Company’s PP&E balance being subjected to a full cost ceiling test under previous GAAP. Impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using the greater of the fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs, and the value in use. The Company recorded an impairment loss of \$236,114 on January 1, 2010, on transition to IFRS.

The following table summarizes the changes to PP&E assets resulting from the transition to IFRS:

PP&E assets	January 1, 2010 \$	June 30, 2010 \$	December 31, 2010 \$
PP&E assets as reported under previous GAAP	3,856,986	3,781,022	3,852,764
Transferred to E&E assets	(127,072)	(127,968)	(133,068)
Capitalized lease rentals expensed	-	(10,653)	(25,075)
Change in depletion, depreciation and amortization	-	(94,259)	(26,086)
Change impairment losses	(236,114)	(236,114)	(236,114)
Change in decommissioning liabilities	-	30,117	30,117
PP&E assets as reported under IFRS	3,493,800	3,342,145	3,462,538

- (iii) Decommissioning liabilities – Under previous GAAP, Desmarais’s decommissioning liabilities were discounted based on a credit adjusted risk-free rate which was 7 percent at December 31, 2009. Under IFRS, the Company is required to revalue its obligation at each balance sheet date using a current liability-specific discount rate. At transition, Desmarais revalued the obligation based on a risk-free rate of 4.1% resulting in a \$36,609 increase to the liability. Further, as a result of the change in the discount rate applied, accretion of decommissioning liabilities expense for the three and six months ended June 30, 2010 was an increase of \$(706) and a decrease of \$7,853, respectively (year ended December 31, 2010 - decrease of \$15,736). The accretion of decommissioning liabilities expense has been included in finance expenses.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(d) Impact of transition to IFRS on 2010 results (continued):

(iii) Decommissioning liabilities (continued):

The following table summarizes the changes to decommissioning liabilities resulting from the transition to IFRS:

Decommissioning liabilities	January 1, 2010 \$	March 31, 2010 \$	December 31, 2010 \$
Decommissioning liabilities as reported under previous GAAP	584,941	699,427	699,448
Increase resulting from change in discount rate	36,609	36,609	36,609
Change in accretion expense	-	(7,853)	(15,736)
Change in net additions/(disposals) & abandonments	-	30,117	30,095
Decommissioning liabilities as reported under IFRS	621,550	758,300	750,460

(iv) Divestitures – Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the divestiture resulted in a change in the depletion rate of 20% or greater in which case, a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed of.

There was no impact on the transactions in 2010 as proceeds equaled net book value in all transactions.

(v) Depletion, depreciation and amortization expense – Under IFRS, Desmarais has chosen to calculate depletion expense based on proved plus probable reserves as opposed to proved reserves under previous GAAP. This has resulted in an increase of depletion, depreciation and amortization expense for the three and six month periods ended June 30, 2010 of \$90,741 and \$94,259, respectively (year ended December 31, 2010 - \$26,086). The Company has included impairment losses on PP&E in depletion, depreciation and amortization expense in the statement of loss and comprehensive loss.

The following table summarizes the changes to depletion, depreciation and amortization expense resulting from the transition to IFRS:

	Three months ended June 30, 2010 \$	Six months ended June 30, 2010 \$	Year ended December 31, 2010 \$
Depletion, depreciation and amortization expense as reported under previous GAAP	73,976	160,954	333,510
Decrease in depletion, depreciation and amortization expense	(25,711)	(64,471)	(132,644)
Increase in impairment losses on PP&E	116,452	158,730	158,730
Depletion, depreciation and amortization as reported under IFRS	164,717	255,213	359,596

(vi) The following table summarizes the changes to accumulated losses resulting from the transition to IFRS:

	January 1, 2010 \$	June 30, 2010 \$	December 31, 2010 \$
Accumulated losses as reported under previous GAAP	(6,334,377)	(6,612,796)	(7,129,669)
Change in decommissioning liabilities	(36,609)	(64,839)	(20,895)
Change in depletion, depreciation and amortization	(236,114)	(294,290)	(262,200)
Change in capitalized lease rentals expensed	-	(10,653)	(25,075)
Change in impairment of E&E assets	-	-	(68,068)
Accumulated losses as reported under IFRS	(6,607,100)	(6,982,578)	(7,505,907)

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the periods ended June 30, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(d) Impact of transition to IFRS on 2010 results (continued):

(vii) The following table summarizes the changes to net loss and comprehensive loss resulting from the transition to IFRS:

	Three months ended June 30, 2010 \$	Six months ended June 30, 2010 \$	Year ended December 31, 2010 \$
Net income (loss) and comprehensive income (loss) as reported under previous GAAP	64,883	(278,417)	(795,292)
Change in exploration and evaluation expenses	-	-	(68,068)
Change in depletion, depreciation and amortization expense	25,711	64,471	132,644
Change in impairment losses included in depletion, depreciation and amortization expense	(116,452)	(158,730)	(158,730)
Change in accretion of decommissioning liabilities	(706)	7,853	15,716
Change in capitalized lease rentals expensed	(4,162)	(10,653)	(25,075)
Net loss and comprehensive loss as reported under IFRS	(30,726)	(375,476)	(898,809)